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How can RIAs replenish the pipeline for new advisor talent?

By Rob Burgess
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The problem is well known across the RIA industry: Too many advisors are retiring and too few are taking their place.

As the demographics of the industry shift, replenishing the advisor pipeline with junior talent is becoming increasingly urgent. Nearly 110,000 advisors plan to retire by 2034, a figure comprising 37.5% of industry headcount and representing 41.5% of total assets, according to a report by Cerulli. If current trends continue, the industry could find itself about 100,000 financial advisors short of the number needed to fulfill customer demand in a decade's time, according to a McKinsey study.

Most firms are experiencing some version of this dilemma, said Tom Prescott, managing member and co-founder of technology, custodial and oversight platform at Advisory Services Network. Many are trying to hire younger advisors, creating associate roles and leaning on succession plans to manage upcoming retirements, he said.

But that's not a long-term solution.

"The industry must attract higher-quality candidates who want to be in the business and then provide advanced training," he said. "In the interim, we will see more practices offered for sale or seeking a merger candidate."

Experts say firms planning to thrive into the future are prioritizing recruiting and establishing guidelines to foster the careers of the next generation of advisors along the way.

What got RIAs here won't take them into the future

RIAs are struggling with this dynamic because many were created by broker-dealers and advisors who left the wirehouses to start their own firms, said Tannon Krumpelman, partner at investment bank Solomon Partners.

"These businesses were advisor- and founder-driven" but not necessarily designed to serve clients and grow assets under management over generations, he said.

Prioritizing the search for new advisor talent

Today, younger advisors join an RIA without a real sense of how or when they will get the opportunity to take on responsibility, how they compete with those who are more experienced and what their future actually looks like, said Prescott.

To address this issue, Michael Girasole, managing director at New York City-based Lenox Advisors, has two recruiters and an additional staff member who spend all of their time sourcing potential prospects. He told Financial Planning that he also spends four to five hours each week on the phone, reaching out to experienced advisors in the industry. This results in interviews with between 10 and 12 candidates on a weekly basis.

"You kiss a lot of frogs," he said. "You have to meet a lot of people to find the right ones, but we like to start with a large funnel and put as many people in as possible and then just have a selective process in terms of which candidates we then move to the next stage."

By using this process, Girasole said, his firm's two-year retention rate is somewhere between 70% and 80%.

"It's the approach of casting a wide net, but being selective with who we actually want to bring it to the firm," he said.

Getting the best junior talent into RIAs, particularly smaller and midsized firms, is difficult, said Krumpelman. "Many younger professionals are looking for more structure and training and less entrepreneurial behaviors such as cold calling or other client prospecting," he said.

RIA firms have tried to address recruiting young talent in several ways: by poaching talent from large financial firms, banks and wirehouses; by creating junior roles that are less about selling; and by paying a premium to compete with career alternatives in technology and corporate finance, said Krumpelman.

"A firm has truly arrived when it has the ability to grow talent from the most junior levels to ultimately working as a partner at that firm," he said. "Firms should create clear techniques to institutionalize client relationships and transition books of business."

Guidelines for new advisors

Girasole said his firm provides clear guidelines on what advisors need to do to be promoted from one level to the next. Those guidelines are "100% based on merit," he said, and track metrics like continuing education and designations, production thresholds and more. As a result, Lenox now has over 20 partners and another 120 advisors who are working towards becoming one.

"Everyone has a clear, defined path of what they need to do to get from one level to the next," he said.

Firms should also institute defined roles for beginners and a clear map of expectations as they progress, as well as competitive, certain, financial compensation along the way, Girasole said.

In general, firms need to be more intentional and more honest about how careers

are built, said Prescott. That means clearly laying out expectations, creating opportunities to grow into leadership roles and planning for transitions well before anyone considers retirement, he said.

"It also means taking operational weight off senior advisors so they can spend time developing people, not just managing complexity," he said. "The firms that do this well will be the ones that keep talent, protect clients and stay healthy through the generational shift."